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ACTION

For a Fairer Personal Income Tax System: New Tax Breaks

Finances Québec
Building the future

For a Fairer Personal Income Tax System: New Tax Breaks
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FOR A FAIRER PERSONAL INCOME TAX SYSTEM: NEW TAX BREAKS

With a view to easing Quebecers' tax burden while making the personal income tax system fairer, the **Supplement to the 2002-2003 Budget** introduces measures that will entail a tax reduction of $172 million over a full year, beginning in 2003.

The tax system will be improved:

— by authorizing the transfer of all non-refundable tax credits from one spouse to the other;

— by making deductions and non-refundable tax credits more accessible to taxpayers.

These measures will especially benefit families, elderly persons and low- and middle-income taxpayers.

These new tax breaks are over and above the tax cuts implemented by the government. With the 2000-2001 and 2001-2002 Budgets, the government granted Quebecers the most substantial tax reduction in the past thirty years. Over the four fiscal years extending from 2000-2001 to 2003-2004, taxpayers will have benefited from tax relief amounting to $11 billion.

— These measures mean that, for the 2002 taxation year, households will receive an average tax cut of 20%, or $1 410.

— Furthermore, the personal income tax system has been fully indexed since January 1, 2002.

Authorizing the transfer of all non-refundable tax credits from one spouse to the other

The personal income tax system will be improved so that all households can take full advantage of the non-refundable tax credits to which each spouse in a couple is entitled.

Thus, spouses will be able to transfer between themselves that portion of non-refundable tax credits they do not need, in order to reduce their income tax payable to zero.

Thanks to this measure, couples – and especially elderly persons and families – will see their tax burden eased by **$94 million** annually.

Broadening access to deductions and non-refundable tax credits

The **2002-2003 Supplement** also enhances the personal income tax system by enabling more households to benefit from the following deductions and non-refundable tax credits:

— the deduction for support payments;

— deductions for remote areas;

— tax credits for medical expenses;

— a number of other deductions and tax credits.

Thanks to this measure, the tax burden of these households will be reduced by **$78 million** annually.

FINANCIAL IMPACT OF THE MEASURES TO MAKE THE PERSONAL INCOME TAX SYSTEM FAIRER
(in millions of dollars)

	Impact on the tax burden (full year)	Financial impact for the government		
		2002-2003	2003-2004	2004-2005
Transfer of all non-refundable tax credits from one spouse to the other	**-94**	–	**-9**	**-94**
Broader access to the following deductions and non-refundable tax credits:[1]				
- Deduction for support payments[2]	-14	–	-1	-14
- Deductions for remote areas	-4	–	-1	-4
- Tax credits for medical expenses[3]	-49	–	-5	-49
- Other deductions and tax credits[4]	-11	–	-1	-11
Sub-total	**-78**	–	**-8**	**-78**
Total	**-172**	–	**-17**	**-172**

1. These deductions may also be taken into account for the purpose of calculating, among other credits, the refundable Québec sales tax (QST) credit, the real estate tax refund, the refundable tax credit for child-care expenses and the tax reduction for families.
2. Includes support payments in respect of a former spouse and support payments for children made under a judgment rendered or an agreement reached before May 1, 1997.
3. Includes the tax credits for expenses relating to medical care not available in the area of residence and for moving expenses relating to medical care.
4. Includes the following deductions and tax credit: the deductions for moving expenses, expenses incurred to earn investment income, judicial expenses and income exempted under a tax treaty or agreement, and the foreign tax credit.

A targeted tax reduction of $172 million

This series of measures will reduce the tax burden by **$172 million** annually for some **780 000 households**, which means average tax savings of $222, or 4%, per household concerned.

This tax relief will be felt mainly by persons aged 65 or over and couples.

— 162 000 households with persons aged 65 or over will save an average of $280;

— 242 000 couples with children will save an average of $242;

— 206 000 couples with no children will save an average of $240.

These tax cuts will improve the progressivity of the tax system by especially benefiting low- and middle-income households. For example, these measures will entail:

— an average tax cut of 44% for 89 000 households with an income below $25 000;

— tax savings of 10% for 282 000 households earning between $25 000 and $50 000.

GAINS FROM THE TARGETED TAX REDUCTION BY HOUSEHOLD CATEGORY – 2003

Household category	Number of eligible households	Total gain		Average gain	
		Amount	Distribution		
	(thousands)	(millions of $)	(%)	($ per household)	(%)[1]
Elderly persons[2]	162	45	26	280	6
Couples with children	242	59	34	242	3
Couples with no children	206	49	29	240	3
Single-parent families	27	3	2	116	4
Single persons	139	16	9	114	4
Total	**776**	**172**	**100**	**222**	**4**

1. Gain as a percentage of income tax payable minus refundable tax credits.
2. Households with at least one person aged 65 or over.

GAINS FROM THE TARGETED TAX REDUCTION BY FAMILY INCOME BRACKET – 2003

Family income bracket	Number of eligible households	Total gain		Average gain	
		Amount	Distribution		
	(thousands)	(millions of $)	(%)	($ per household)	(%)[1]
Less than $25 000	89	14	8	156	44
$25 000 to $50 000	282	63	37	224	10
$50 000 to $75 000	217	51	30	235	4
$75 000 to $100 000	104	23	13	221	2
$100 000 and over	84	21	12	251	1
Total	**776**	**172**	**100**	**222**	**4**

1. Gain as a percentage of income tax payable minus refundable tax credits.

A DETAILED LOOK AT THE NEW MEASURES

Authorizing the transfer of all non-refundable tax credits from one spouse to the other

The **2002-2003 Supplement** announces that households will be able to take full advantage of the non-refundable tax credits granted under the personal income tax system. As of 2003, all spouses will be entitled to transfer between themselves that portion of the tax credits they do not need, in order to reduce their income tax payable to zero.

Currently, spouses who opt for the simplified tax system[1] can transfer the unused portion of their tax credits respecting:

— the basic amount of $6 060;

— the flat amount of $2 780;

— the amount for dependent children;

— the amount for a mental or physical impairment;

— donations;

— contributions to political parties;

— the acquisition of shares in a labour-sponsored fund;

— the acquisition of shares in the Capital régional et coopératif Desjardins.

However, the tax credit for an impairment is the only tax credit that can be transferred between spouses filing under the general tax system.

To ensure that the tax credits are used in full, the mechanism used to transfer non-refundable tax credits between spouses will be extended to all taxpayers, regardless of whether they file under the general or the simplified tax system.

1 See Appendix 1 on the simplified tax system.

This measure will result in a tax reduction of $94 million for 260 000 couples, or $366 per couple, broken down as follows:

— an average of $544 for 45 000 couples aged 65 or over;

— an average of $316 for 119 000 couples with children;

— an average of $343 for 93 000 couples with no children.

Moreover, the transfer of non-refundable tax credits from one spouse to another will be advantageous for 90 000 low- and middle-income couples. This transfer represents:

— a tax cut of 76% for 13 000 couples with an income below $25 000;

— a tax cut of 17% for 77 000 couples earning between $25 000 and $50 000.

GAINS FROM THE CHANGE IN THE TRANSFER MECHANISM FOR NON-REFUNDABLE TAX CREDITS BETWEEN SPOUSES, BY HOUSEHOLD CATEGORY – 2003

Household category	Number of eligible households	Total gain		Average gain	
		Amount	Distribution		
	(thousands)	(millions of $)	(%)	($ per household)	(%)[1]
Elderly couples[2]	45	24	26	544	14
Couples with children	119	38	40	316	4
Couples with no children	93	32	34	343	4
Total	**257**	**94**	**100**	**366**	**5**

1. Gain as a percentage of income tax payable.
2. Households with at least one person aged 65 or over.

GAINS FROM THE CHANGE IN THE TRANSFER MECHANISM FOR NON-REFUNDABLE TAX CREDITS BETWEEN SPOUSES, BY FAMILY INCOME BRACKET – 2003

Family income bracket	Number of eligible households	Total gain		Average gain	
		Amount	Distribution		
	(thousands)	(millions of $)	(%)	($ per household)	(%)[1]
Less than $25 000	13	6	6	431	76
$25 000 to $50 000	77	30	33	395	17
$50 000 to $75 000	101	30	32	302	5
$75 000 to $100 000	40	14	15	343	3
$100 000 and over	26	14	14	531	2
Total	**257**	**94**	**100**	**366**	**5**

1. Gain as a percentage of income tax payable.

Illustration of the transfer mechanism for non-refundable tax credits between spouses

The example below concerns a couple who have no children and earn income totalling $40 000. Spouse 1 earns $32 000 and, due to the non-refundable tax credits to which he is entitled, files under the general tax system, which is more advantageous for him. Spouse 2 has an income of $8 000 and files under the simplified tax system, in order to claim the flat amount of $2 780.

Currently, Spouse 2 is entitled to $1 768 in non-refundable tax credits, and uses $1 280 to reduce her income tax payable to zero.

By taking advantage of the transfer mechanism for non-refundable tax credits, Spouse 2 will be authorized to transfer the unused portion of her tax credits to Spouse 1, which will reduce the amount of income tax owed by the couple from $3 071 to $2 583, for total tax savings of $488 (16%).

ILLUSTRATION FOR A COUPLE WITH NO CHILDREN
(in dollars)

	Spouse 1	Spouse 2	Total
	General system	Simplified system	
Employment income	**32 000**	**8 000**	**40 000**
Calculation of tax			
Tax according to table (A)	5 332	1 280	6 612
Non-refundable tax credits			
• Basic amount	6 060	6 060	
• Flat amount	–	2 780	
• QPP contributions	1 340	–	
• Employment insurance contributions	704	–	
• Other amounts[1]	3 200	–	
Sub-total	*11 304*	*8 840*	*20 144*
Value of amounts in tax credits (20% of sub-total)	2 261	1 768	
• Credits used (B)	2 261	1 280	3 541
Tax payable under the current system (C) = (A) – (B)	**3 071**	–	**3 071**
Transferable credits introduced by the Supplement (D)	488	-488	–
Tax payable under the new mechanism (E) = (C) – (D)	**2 583**	–	**2 583**
Tax reduction following the Supplement (F) = (C) – (E)	**488**	–	**488**
As a percentage of income tax payable			***16%***

1. For example, union and professional dues, and donations.

Note: Illustration based on the parameters of the 2002 tax system.

Broadening access to deductions and non-refundable tax credits

Under the simplified tax system, the flat amount – set at $2 780 in 2002 – replaces a certain number of deductions and non-refundable tax credits.

Beginning in the 2003 taxation year, the following deductions and non-refundable tax credits will be granted under the simplified tax system, in addition to the flat amount:

— the deduction for support payments;

— deductions for residents of designated remote areas;

— non-refundable tax credits for medical expenses;

— a series of deductions including the deduction for moving expenses and the deduction for certain expenses incurred to earn investment income, and other tax credits such as the foreign tax credit.

Furthermore, the new deductions that can be claimed under the simplified tax system will be taken into account in the calculation of family income. This change will improve the tax credits and transfer programs that are calculated on the basis of family income.

These measures will benefit close to 640 000 households and decrease their tax burden by approximately $78 million, or $122 per household concerned.

— 145 000 households with persons aged 65 or over and 27 000 single-parent families will see their taxes cut by an average of 4%.

— This measure will be of particular assistance to low- and middle-income households. The tax reduction will amount to 30% for 83 000 households with an income below $25 000, and 7% for 249 000 households earning between $25 000 and $50 000.

GAINS FROM BROADER ACCESS TO DEDUCTIONS AND NON-REFUNDABLE TAX CREDITS, BY HOUSEHOLD CATEGORY – 2003

Household category	Number of eligible households	Total gain		Average gain	
		Amount	Distribution		
	(thousands)	(millions of $)	(%)	($ per household)	(%)[1]
Elderly persons[2]	145	21	27	147	4
Couples with children	172	21	28	125	2
Couples with no children	157	17	21	109	2
Single-parent families	27	3	4	116	4
Single persons	139	16	20	114	4
Total	**640**	**78**	**100**	**122**	**2**

1. Gain as a percentage of income tax payable minus refundable tax credits.
2. Households with at least one person aged 65 or over.

GAINS FROM BROADER ACCESS TO DEDUCTIONS AND NON-REFUNDABLE TAX CREDITS, BY FAMILY INCOME BRACKET – 2003

Family income bracket	Number of eligible households	Total gain		Average gain	
		Amount	Distribution		
	(thousands)	(millions of $)	(%)	($ per household)	(%)[1]
Less than $25 000	83	8	10	99	30
$25 000 to $50 000	249	33	42	131	7
$50 000 to $75 000	158	21	27	131	3
$75 000 to $100 000	81	9	12	115	1
$100 000 and over	69	7	9	102	1
Total	**640**	**78**	**100**	**122**	**2**

1. Gain as a percentage of income tax payable minus refundable tax credits.

Calculation of family income

Family income is used to determine the level of assistance granted in the form of certain tax credits and transfer programs, which can be reduced by income.[1]

Currently, for the purpose of calculating family income, taxpayers can claim a certain number of deductions from their total income. As of 2003, they will be entitled to claim the additional deductions granted under the simplified tax system with respect to their income, thus reducing the value of their family income by the corresponding amount.

The value of the following tax credits and transfer programs, among others, will thus be increased: the refundable QST credit, the real estate tax refund, the refundable tax credit for child-care expenses and the tax reduction for families, and the family allowance program.

CALCULATION OF FAMILY INCOME

Before Supplement	**After Supplement**
Total income	**Total income**
Less deductions:	**Less deductions:**
- Contributions to a registered pension plan	- Contributions to a registered pension plan
- RRSP contributions	- RRSP contributions
- Other deductible amounts	- Other deductible amounts
	Less additional deductions:
	- support payments
	- residents of designated remote areas
	- moving expenses
	- expenses incurred to earn investment income
	- allowable business investment losses
	- respecting certain films
	- resources
	- other deductions
Family income	**Family income**

1. Example of the tax reduction for families:
Formula for a couple with children: $1 500 - 3% (family income – $26 700).

The deduction for support payments

The deduction for support payments is granted under the general tax system to taxpayers who make support payments.

In general, a support payment made for the benefit of a child under an agreement reached before May 1, 1997 is included in the income of the parent who receives the payment, and can be claimed as a deduction by the parent who makes the payment. The same rule has always applied in respect of support payments made for the benefit of a former spouse.

As of 2003, this deduction will also be granted under the simplified tax system. Eligible taxpayers will thus be entitled to claim both the deduction for support payments and the tax credit respecting the flat amount – $2 780 in 2002.

This measure will reduce the tax burden of some 40 000 households by $14 million, for average tax savings of $350 per household.

Deductions for residents of designated remote areas

The general tax system grants deductions to residents of designated remote areas in order to offset, among other things, the higher cost of living incurred by taxpayers who choose to live away from major urban centres. These remote areas include the Magdalen Islands, the Lower North Shore and the northern regions.

These deductions are as follows:

— a maximum housing deduction of $15 per person per day for inhabitants of the northern zones, for example, Kuujjuaq, and of $7.50 per person per day for inhabitants of the intermediate zones, for example, Cap-aux-Meules;

— a travel deduction in respect of trips paid by the employer.

Beginning in 2003, taxpayers who choose the simplified tax system will also be eligible for these deductions.

These measures will benefit over 14 000 households and represent tax savings of $4 million, or $316 per household.

Non-refundable tax credits for medical expenses

Under the personal income tax system, households are entitled to claim non-refundable tax credits for medical expenses. By granting these tax credits, the government recognizes the diminished ability of households that have incurred medical expenses to pay taxes.

There are three non-refundable tax credits for medical expenses:

— a 20% tax credit for medical expenses, where the medical expenses eligible for the credit are equal to that portion of expenses exceeding 3% of family income;

— a 20% tax credit for expenses relating to medical care not available in the area of residence;

— a 20% tax credit for moving expenses relating to medical care.

Currently, only taxpayers who file under the general tax system are eligible for this measure.

As of 2003, these credits will also be made available to taxpayers who use the simplified tax system.

Over 260 000 households will thus benefit from tax cuts of $49 million, for an average reduction of $188.

Illustration of the impact of granting the deductions for remote areas and the tax credits for medical expenses under the simplified tax system

The example below shows how these measures affect an inhabitant of a northern zone who lives alone, earns an income of $30 000 and incurs medical expenses of $1 500 per year.

Before the **2002-2003 Supplement**, this individual filed under the general tax system in order to take advantage of the deductions for residents of designated remote areas and the non-refundable tax credits for medical expenses.

Now that these deductions and tax credits are also available under the simplified tax system, this taxpayer will be able to opt for the simplified tax system and enjoy tax savings of $505 (28%), broken down as follows:

— a reduction in income tax payable of $307;
— an increase in the QST credit of $99;
— an increase in the real estate tax refund of $99.

ILLUSTRATION OF THE IMPACT FOR A PERSON LIVING ALONE
(in dollars)

	Before Supplement (general system)	After Supplement (simplified system)	Difference
Employment income	**30 000**	**30 000**	
Medical expenses incurred	**1 500**	**1 500**	
Calculation of income tax payable			
Total income	30 000	30 000	
Deductions for remote areas	–	5 475	
Family income	*30 000*	*24 525*	*-5 475*
Deductions for remote areas	5 475	–	
Taxable income	24 525	24 525	
Tax according to table (A)	**3 924**	**3 924**	–
Non-refundable tax credits			
Basic amount	6 060	6 060	
Flat amount	–	2 780	
Amount for a person living alone[1]	585	1 080	
QPP contributions	1 246	–	
Employment insurance contributions	660	–	
Eligible medical expenses[1]	600	764	
Sub-total	*9 151*	*10 684*	
Tax credits: 20% of sub-total (B)	**1 830**	**2 137**	307
Tax payable (C) = (A) – (B)	**2 094**	**1 787**	**-307**
Refundable tax credits			
QST credit[1]	165	264	99
Real estate tax refund[1]	95	194	99
Tax net of refundable tax credits	**1 834**	**1 329**	**-505**
Tax reduction as a percentage of net tax			***28%***

1. Varies according to family income: for example, eligible medical expenses are equal to that portion of expenses exceeding 3% of family income.

Note: Illustration based on the parameters of the 2002 tax system.

Appendix 1

The simplified tax system

In the 1997-1998 Budget Speech, the Québec government implemented the simplified tax system in order to:

— favour individuals who profit only to a limited extent from the tax benefits deriving from deductions and non-refundable tax credits;

— improve tax assistance for low-income workers;

— make the tax system simpler.

Thus, as of the 1998 taxation year, taxpayers may, when filing under the simplified tax system, replace a series of deductions and non-refundable tax credits with a flat amount. This amount is set at $2 780 for 2002. Converted at the rate of 20%, it allows for a tax reduction of $556.

Under the simplified tax system, the amount of non-refundable tax credits that a taxpayer does not use, including the flat amount of $2 780, can be transferred to his or her spouse, provided both spouses file under the simplified tax system.

Since 1998, over 80% of individuals have opted for the simplified tax system.

ELIGIBLE MEASURES UNDER THE SIMPLIFIED TAX SYSTEM – 2003

Before Supplement	After Supplement	Maximum eligible amount[1] ($)	Maximum tax value ($)
TAX CREDIT RESPECTING THE FLAT AMOUNT	TAX CREDIT RESPECTING THE FLAT AMOUNT	2 780	556
DEDUCTIONS	DEDUCTIONS		
Contributions to a registered pension plan (RPP)	Contributions to a registered pension plan (RPP)		
RRSP contributions	RRSP contributions		
Relating to the Cooperative Investment Plan (CIP)	Relating to the Cooperative Investment Plan (CIP)		
Deductible amounts used to determine family income (transfers to an RPP, RRSP, etc.)	Deductible amounts used to determine family income (transfers to an RPP, RRSP, etc.)	Amounts vary according to the eligible amount and the marginal tax rate	
	Support payments		
	Residents of designated remote areas		
	Moving expenses		
	Expenses incurred to earn investment income		
	Allowable business investment losses		
	Respecting certain films		
	Resources		
	Other deductions (judicial expenses, etc.)		
NON-REFUNDABLE TAX CREDITS	NON-REFUNDABLE TAX CREDITS		
Basic amount	Basic amount	6 060	1 212
For a person living alone	For a person living alone	1 080	216
For retirement income	For retirement income	1 000	200
With respect to age	With respect to age	2 200	440
Transfer between spouses	Transfer between spouses	Variable amount	
For dependent children	For dependent children	2 670	534
For other dependants	For other dependants	6 060	1 212
Tax reduction for families	Tax reduction for families	1 500	1 500
Donations	Donations	Variable amount	
Contributions to political parties	Contributions to political parties	540	405
Amount for an impairment	Amount for an impairment	2 200	440
With respect to a labour-sponsored fund	With respect to a labour-sponsored fund	5 000	750
Shares in the Capital régional et coopératif Desjardins	Shares in the Capital régional et coopératif Desjardins	Variable amount	
	For medical expenses	Variable amount	
	For foreign tax	Variable amount	
	For support-payment arrears	Variable amount	

1. Amounts for 2002.

Appendix 2

Tax breaks for individuals

The tax reductions introduced in the 2000-2001 and 2001-2002 Budgets represent, for the four fiscal years extending from 2000-2001 to 2003-2004, a decrease in the tax burden of households that amounts to $11 billion.

For 2004-2005, including the impact of the Supplement, taxpayers will enjoy tax savings of over $4 billion.

CUMULATIVE PERSONAL INCOME TAX REDUCTION
(in millions of dollars)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
2000-2001 Budget	1 053	1 661	2 289	2 485	2 597
2001-2002 Budget[1]	–	1 034	1 175	1 268	1 325
Sub-total	1 053	2 695	3 464	3 753	3 922
2002-2003 Supplement	–	–	–	17	172
Total	**1 053**	**2 695**	**3 464**	**3 770**	**4 094**
Cumulative total	**1 053**	**3 748**	**7 212**	**10 982**	**15 076**

1. Includes the impact of the increase in the rate of indexation from 1.8% to 2.7% for 2002, announced in the 2002-2003 Budget.